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DEPARTMENT FOR AF/S AND EB/CBA - DENNIS WINSTEAD  
COMMERCE FOR 4510/ITA/IEP/ANESA/OA

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SUBJECT: ZAMBIA SEPTEMBER 2007 ECONOMIC ROUNDUP

#### 1. SUMMARY

-- ZAMBIA RECORDS SINGLE DIGIT INFLATION  
-- URANIUM MINING PROJECTS AWAIT GRZ POLICY FINALIZATION  
-- ZESCO PROPOSES ELECTRICITY PRICE HIKES  
-- KCM IMPORTS STATE-OF-THE ART SMELTER PLANT EQUIPMENT  
-- NEW TRI-NATIONAL JOINT VENTURE ESTABLISHED  
-- COMMERCIAL BANK LENDING RATES TOO HIGH FOR SME  
-- GRZ CONCERNED WITH WHEAT SHORTAGE

#### ----- Zambia Records Single Digit Inflation -----

12. The year-on-year inflation rate fell to 9.3 percent in September, from 10.7 percent in August. Zambia has not recorded single-digit inflation since January 2007. Central Statistics Office Acting Director Efreda Chulu attributed the drop to reduced prices of food, clothing, medical care, transport, rent, and household energy. Chulu warned, however, that increases in petroleum prices may raise inflation rates once more.

#### ----- Uranium Mining Projects Await GRZ Policy Finalization -----

13. At the Africa DownUnder Conference in Perth, Australia, in early September, Zambia's Mines Minister Kalombo Mwansa said that the GRZ had already issued several uranium prospecting licenses "to service some current activities" in southern Zambia. His announcement contradicted former statements that the GRZ will not issue uranium mining licenses until a uranium policy is in place. A number of uranium projects, such as the Kariba Uranium Project, Zambezi Resources and Lumwana Uranium Project have reportedly been moving forward, in spite of the lack of a GRZ policy. Mwansa claimed that the GRZ's uranium policy will be released by the end of 2007, will be in line with International Atomic Energy Agency guidelines, and will offer incentives to encourage investment. Note: In the 1950s, a British company called Amco, operating out of Nkana Copper Mines (currently Mopani Copper Mines) in Kitwe, mined uranium, which was shipped to the United Kingdom. Since then, the mineral has not been actively mined in Zambia. End Note.

#### ----- ZESCO Proposes Electricity Price Hikes -----

14. Zambia's state-owned power utility provider, ZESCO, has submitted a proposal to the Energy Regulation Board (ERB) to increase electricity rates by approximately 60 percent, starting in October 2007, in order to obtain financial resources to rehabilitate and expand its power station infrastructure. ZESCO also publicly announced the planned hikes in September, and the ERB requested public feedback in writing by October 3, for consideration at public meetings to debate the hikes. Zambia Chamber of Small and Medium

Business Association Executive Secretary Maxwell Sichula said the tariff will negatively impact its members. Former Commerce Deputy Minister Eugene Appel also voiced concerns over the proposed hikes, claiming they would "create an uncompetitive business environment" for Zambian firms and be very hard on poorer consumers. World Bank Resident Representative Kapil Kapoor was reported to have said that because the electricity rates in Zambia were among the lowest in the region, a rise was justified. Energy consultant and former ERB Board Chairman Raphael Salasini also noted that unless (below cost) electricity rates are increased, the entire electricity sector "will collapse."

15. Comment: During the privatization of the Power Division, ZESCO entered into Bulk Supply Agreements with mining companies to charge tariffs below the cost of generating and supplying of power-at a time when prevailing copper prices were very low and the sector needed such help. Copperbelt Energy Corporation is responsible for supplying power to mining companies but ZESCO hopes to review these power contracts. In the past, ERB has responded--albeit conservatively--to ZESCO's pricing requests. In 2003 and 2005, ERB approved price adjustments of 5.3 percent and 11 percent respectively (against ZESCO's application for rate increases of 16 percent and 15 percent). Despite the public outcry, ERB may be compelled to approve the latest request in order to meet increased future energy demands. End Comment.

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KCM Imports State-Of-The-Art Smelter Plant Equipment  
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16. Konkola Copper Mines (KCM) has purchased flash smelting technology from the Finnish engineering company Outokumpu. KCM's smelter, once operational in 2008, will be the largest in Africa, with a production capacity of 250,000 tons/year. KCM, a subsidiary of Vedanta Resources, is currently the largest mining and metals

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company in Zambia, with an annual capacity of 200,000 tons of copper. Its expansion program for the Konkola deep mining project will provide access to 250 million tons of copper ore and extend the mine's life to 2035. The Konkola deep mining project is the largest single investment in Zambia's mining history, costing USD 400 million.

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New Tri-National Joint Venture Established  
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17. The governments of South Africa, Zambia, and Zimbabwe have formed a tri-national joint venture called Pan African Minerals Development Company (PAMDC) to take over the mineral rights of a defunct colonial railway company, known as the Rhodesia Railway Corporation.

In 1980, ZIZA Limited, a company jointly owned by the governments of Zimbabwe and Zambia, inherited the mineral rights located in the Northern Cape and Limpopo provinces of South Africa. ZIZA has placed its mineral rights, which cover 1.6 million hectares, under the stewardship of De Beers. Patrick Bondai, a ZIZA Secretary, announced that PAMDC will be registered in Zimbabwe and Zambia and listed on the Johannesburg Stock Exchange (JSE) "to raise money for exploration and development." The concessions have potential for manganese, iron, coal, gold and platinum.

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Commercial Bank Lending Rates Too High For SMEs  
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18. Central Bank Governor Caleb Fundanga observed that commercial banks' lending rates remain high despite positive achievements by the central bank in monetary and fiscal management. He said small and medium enterprises, which are the engine for fostering economic development, are held back by high interest rates. He appealed to commercial banks to provide more financial support for the growth and development of the economy. He made his comments at the official opening of a new Standard Chartered Bank Branch at Crossroads Shopping Mall in Lusaka. Speaking at the same occasion Standard Chartered Bank Board Chairman George Sokota said his bank

had given K143 billion (USD 35 million) in private sector loans in the past 12 months.

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GRZ Concerned With Wheat Shortage  
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19. Zambia's shortage of wheat and wheat products is impacting bread prices. The GRZ held consultative meetings with stakeholders to identify possible causes for the shortage, including "illegal" wheat exports. Ministry of Agriculture and Cooperatives (MACO) Permanent Secretary Sam Mundia speculated that farmers use wheat export

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proceeds to pay off cooperative loans and other production costs. However, Zambia National Farmers Union Executive Director Songowayo Zyambo refuted allegations of illegal exports. Earlier in September, Millers Association of Zambia Vice Chairman Peter Cottan advised the GRZ not to grant wheat export permits because of the wheat shortage. MACO PermSec Mundia announced that the Government issued a ban on the export of wheat and wheat products, although it did not back up the announcement by implementing a necessary Statutory Instrument. Note: Zambia's annual wheat consumption is 190,000 tons, whereas annual production is approximately 160,000 tons. The difference is imported from South Africa and Brazil.

MARTINEZ